Detroit Chamber Winds, Inc. and Subsidiary

Audited Financial Statements

For the years ended July 31, 2023 and 2022

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Jason F. Clausen, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Management of
Detroit Chamber Winds, Inc. and Subsidiary
Southfield, MI

Opinion

We have audited the accompanying financial statements of Detroit Chamber Winds, Inc. and Subsidiary (a nonprofit organization), which comprise the statement of financial position as of July 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Detroit Chamber Winds, Inc. and Subsidiary as of July 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Detroit Chamber Winds, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Detroit Chamber Winds, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Detroit Chamber Winds, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Detroit Chamber Winds, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Jason F. Clausen, P.C.

Fraser, MI
January 19, 2023

DETROIT CHAMBER WINDS, INC. AND SUBSIDIARY
STATEMENT OF FINANCIAL POSITION
JULY 31, 2023 AND 2022

Assets	2023	2022
Current assets		
Cash and cash equivalents	$ 150,936	$ 370,814
Investments	808,584	690,296
Accounts receivable - net	5,851	19,927
Grants receivable - net	103,425	53,998
Endowment receivable	12,469	5,791
Security deposits	3,159	3,159
Operating right-of-use asset, current	35,981	-
Prepaid expenses and other assets	6,698	5,182
Total current assets	1,127,103	1,149,167
Property and equipment, net	6,121	14,947
Other assets		
Operating right-of-use asset, net of current	66,128	-
Total other assets	66,128	-
Total assets	1,199,352	1,164,114
Liabilities and net assets		
Current liabilities		
Accounts payable	18,421	111,992
Payroll taxes and other accrued expenses	26,393	26,740
Deferred revenue	-	12,500
Operating lease liability, current	34,706	-
Total current liabilities	79,520	151,232
Long-term liabilities		
Opeprating lease liability, net of current	67,828	-
Deferred rent	-	2,525
Total long-term liabilities	67,828	2,525
Total liabilities	147,348	153,757
Net assets		
Without donor restrictions		
Undesignated	290,323	350,971
Designated by board of directors	205,988	205,988
With donor restrictions		
Net assets with purpose restrictions	367,397	268,032
Net assets with endowment fund restrictions	188,296	185,366
Total net assets	1,052,004	1,010,357
Total liabilities and net assets	$ 1,199,352	$ 1,164,114

DETROIT CHAMBER WINDS, INC. AND SUBSIDIARY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JULY 31, 2023 AND 2022

	Without donor restrictions		With donor restrictions			
	Undesignated	Board Designated	Purpose Restricted	Endowment Fund	Total 2023	Total 2022
Revenue and other support						
Administrative contracts	$ 458,352	$ -	$ -	$ -	$ 458,352	$ 418,602
Performance contracts	56,757	-	-	-	56,757	57,386
Ticket sales individual	28,332	-	-	-	28,332	19,997
Ticket sales subscriptions	8,958	-	-	-	8,958	7,966
Concert sponsors	58,750	-	-	-	58,750	60,250
Contributions	86,033	-	-	-	86,033	91,646
Grants and foundation	37,500	-	293,750	-	331,250	390,169
Interest and dividends	13,674	-	-	4,615	18,289	11,471
Fundraising	9,341	-	-	-	9,341	-
PPP loan forgiveness	-	-	-	-	-	123,400
Other income	17,877	-	-	-	17,877	27,700
Net realized and unrealized gain (loss)	1,683	-	-	5,964	7,647	(62,216)
Net assets released from restrictions	202,034	-	(194,385)	(7,649)	-	-
Total revenue and other support	979,291	-	99,365	2,930	1,081,586	1,146,371
Expense						
Program services: Artistic	373,665	-	-	-	373,665	365,905
Program services: Administrative	508,279	-	-	-	508,279	449,100
Management and general	66,867	-	-	-	66,867	62,437
Fundraising	91,128	-	-	-	91,128	79,311
Total expense	1,039,939	-	-	-	1,039,939	956,753
Change in net assets	(60,648)	-	99,365	2,930	41,647	189,618
Net assets, beginning of period	350,971	205,988	268,032	185,366	1,010,357	820,739
Net assets, end of period	$ 290,323	$ 205,988	$ 367,397	$ 188,296	$ 1,052,004	$ 1,010,357

DETROIT CHAMBER WINDS, INC. AND SUBSIDIARY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2023

Description	Program Services: Artistic	Program Services: Administrative	Management and General	Fundraising	Total
Salaries and wages	$ 151,566	$ 345,570	$ 48,501	$ 60,626	$ 606,263
Artist fees	123,708	-	-	-	123,708
Contract labor	4,269	9,733	1,366	1,708	17,076
Community engagement	3,537	31,838	-	-	35,375
Office rent	12,269	27,974	3,926	4,908	49,077
Payroll taxes	11,595	26,435	3,710	4,638	46,378
Core 375	13,600	-	-	-	13,600
Marketing	23,853	-	-	-	23,853
Employee benefits	9,900	22,571	3,167	3,960	39,598
Miscellaneous	1,291	2,942	413	516	5,162
Equipment	7,172	16,352	2,294	2,869	28,687
Fundraising and promotion	-	-	-	7,541	7,541
Depreciation and amortization	2,286	5,212	732	914	9,144
Office administration	3,222	7,347	1,031	1,289	12,889
Professional fees	1,250	2,850	400	500	5,000
Insurance	660	1,505	212	264	2,641
Printing and postage	417	950	133	167	1,667
Telephone	600	1,368	192	240	2,400
Travel	2,470	5,632	790	988	9,880
Total expenses on the statement of activities	$ 373,665	$ 508,279	$ 66,867	$ 91,128	$ 1,039,939

DETROIT CHAMBER WINDS, INC. AND SUBSIDIARY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2022

Description	Program Services: Artistic	Program Services: Administrative	Management and General	Fundraising	Total
Salaries and wages	$ 147,239	$ 335,705	$ 47,116	$ 58,896	$ 588,956
Artist fees	93,909	-	-	-	93,909
Contract labor	1,254	2,859	401	502	5,016
Community engagement	41,003	4,228	-	-	45,231
Office rent	9,545	21,762	3,054	3,818	38,179
Payroll taxes	11,077	25,256	3,545	4,431	44,309
Core 375	19,740	-	-	-	19,740
Marketing	16,133	-	-	-	16,133
Employee benefits	7,744	17,657	2,478	3,098	30,977
Miscellaneous	3,097	7,060	990	1,239	12,386
Equipment	5,099	11,625	1,631	2,040	20,395
Fundraising and Promotions	-	-	-	1,262	1,262
Depreciation and amortization	2,286	5,212	732	914	9,144
Office administration	3,878	8,841	1,241	1,551	15,511
Professional fees	1,125	2,565	360	450	4,500
Insurance	900	2,053	288	360	3,601
Postage	745	1,699	239	298	2,981
Printing	219	500	70	88	877
Telephone	601	1,370	193	240	2,404
Travel	311	708	99	124	1,242
Total expenses on the statement of activities	$ 365,905	$ 449,100	$ 62,437	$ 79,311	$ 956,753

DETROIT CHAMBER WINDS, INC. AND SUBSIDIARY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2023 AND 2022

Cash flows from operating activities	2023	2022
Change in net assets	$ 41,647	$ 189,618
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	9,144	9,144
PPP loan forgiveness	-	(123,400)
Unrealized investment (income) loss	(7,647)	62,216
Changes in operating assets and liabilities		
(Increase)/Decrease in:		
Net receivables	14,076	(15,482)
Grants receivable	(49,427)	57,019
Endowment receivable	(6,678)	(356)
Prepaid expenses and other assets	(1,835)	1,558
Increase/(Decrease) in:		
Accounts payable	(93,571)	55,459
Payroll taxes	(347)	3,796
Deferred revenue	(12,500)	(5,000)
Deferred rent	(2,525)	(7,296)
Net cash provided by (used in) operating activities	(109,663)	227,276
Cash flows from investing activities		
Noncash investment in operating right of use asset	(102,109)	-
Reinvested dividends and interest	(18,289)	(11,471)
Purchase of investments	(100,000)	-
Sale of investments	7,649	8,087
Purchase of fixed asset	-	(4,663)
Net cash used in investing activities	(212,749)	(8,047)
Cash flows from financing activities		
Noncash financing of operation right of use liability	102,534	-
Net cash provided by financing activities	102,534	-
Net increase/(decrease) in cash and cash equivalents	(219,878)	219,229
Cash and cash equivalents, beginning of period	370,814	151,585
Cash and cash equivalents, end of period	$ 150,936	$ 370,814

Cash paid for interest during the fiscal year was $0.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Detroit Chamber Winds, Inc. (DCW) presents a variety of chamber music concerts and music education/appreciation events in the metropolitan Detroit area. DCW receives support primarily from concert ticket sales, individual donors' contributions, government grants, foundation grants, and corporate contributions.

ArtOps, LLC (ArtOps) is a 100% controlled subsidiary of DCW and was established to provide executive and administrative support to other arts related non-profit organizations in metropolitan Detroit. ArtOps receives support primarily from administrative contracts and various government and corporate grants.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Presentation
The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountant (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net Assets without Donor Restrictions
Net assets that are not subject to donor- imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization management and the board of directors.

Net Assets with Donor Restrictions
Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Principles of Consolidation
The accompanying consolidated financial statements reflect the consolidated assets and liabilities, activities, and cash flows of Detroit Chamber Winds, Inc. and ArtOps, LLC, (collectively, the "Organization"). All significant interrelated transactions between Detroit Chamber Winds, Inc. and ArtOps LLC have been eliminated in consolidation.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk
At times, the Organization has balances on deposit with certain financial institutions that may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not exposed to any significant credit risk for cash.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments
The Organization records its investments in accordance with ASC topic *Non-Profit Entities Investments*. Investments are stated at fair values based upon quoted market prices using prevailing financial market information. Realized gains and losses represent the difference between the proceeds received and the cost of investments sold. Unrealized gains and losses represent the change in the market value of the investments during the year.

Accounts Receivable
Accounts receivable consists primarily of pledged contributions and grants, and administrative contracts and are stated net of an allowance for doubtful accounts. The Organization does not require collateral for its accounts receivable and all accounts are expected to be received within one year. Periodically management reviews the accounts receivable for collectability and establishes an allowance for doubtful accounts receivable. An allowance for doubtful accounts receivable of $1,500 has been recorded as of July 31, 2023 and 2022.

Leases
On August 1, 2022, the Organization adopted ASC 842 Accounting for Leases which is a replacement for the previous lease accounting standard ASC 840. The new lease accounting standard was applied on a modified retrospective approach accounting for leases in the current fiscal year and going forward. Leases were accounted for under ASC 840 for fiscal years prior to August 1, 2022. ASC 842 requires that both operating and finance type leases be reported as right of use assets and lease liabilities on the statement of financial position if the lease term is longer than 12 months. Additional information is disclosed in Note 10.

Property, Equipment, and Depreciation
Property and equipment is stated at cost. Expenditures for maintenance and repairs are charged to operating expenses. Adjustments of the asset and the related accumulated depreciation accounts are made for property and equipment retirements and disposals, with the resulting gain or loss included in the Consolidated Statement of Activities. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 7 years.

Deferred Revenue
Deferred revenue represents ticket sales and concert sponsorships for the subsequent season. Revenues will be recognized for the season in which the concert occurs.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition
Contributions: Unconditional contributions are recognized when pledged and are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support.

Contract Revenue and Ticket Sales: The organization receives fees for administrative contract and ticket sales, which are recognized in the period in which the services are performed.

Donated Services: A substantial number of volunteers have donated significant amounts of their time in the Organization's program services and its fundraising campaigns. Donated services were not recognized in the financial statement since they did not meet the criteria for recognition under ASC topic *Contributions.*

Income Taxes
The Organization operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes. ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold income tax position is required to be met before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At July 31, 2023 and 2022, there were no uncertain tax positions that required accrual.

Functional Expenses
The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, occupancy and general operating expenses on the basis of estimates of time and effort. All other expenses are allocated based on direct identification and utilization.

NOTE 3– ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

NOTE 3– ACCOUNTS RECEIVABLE (CONTINUED)

	July 31, 2023	July 31, 2022
Accounts receivable	$ 5,851	$ 21,427
Grants receivable	103,425	53,998
Endowment receivable	12,469	5,791
Less: allowance for doubtful accounts	(1,500)	(1,500)
Less: unamortized discount	-	-
Net accounts receivable	$ 120,245	$ 79,716
Amounts due in		
Less than one year	$ 121,745	$ 81,216
One to five years	-	-
Total accounts receivable	$ 121,745	$ 81,216

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts are computed using a rate of 0% and 0% for the years ended July 31, 2023 and 2022, respectively.

NOTE 4– INVESTMENTS

Fair values and unrealized gains are summarized as follows:

July 31, 2023	Cost	Fair Value	Unrealized Gain
Money market funds	$ 162,952	$ 162,952	$ -
Mutual funds	203,933	207,462	3,529
ETP	284,780	306,962	22,182
Alternative investments	123,731	131,208	7,477
Total investments	$ 775,396	$ 808,584	$ 33,188

July 31, 2022	Cost	Fair Value	Unrealized Gain
Money market funds	$ 56,490	$ 56,490	$ -
Mutual funds	342,288	320,633	(21,655)
ETP	167,339	183,916	16,577
Alternative investments	128,935	129,257	322
Total investments	$ 695,052	$ 690,296	$ (4,756)

Investment income is comprised of the following:

	July 31, 2023	July 31, 2022
Interest income	$ 18,289	$ 11,471
Unrealized gain (loss)	7,647	(62,216)
Total	$ 25,936	$ (50,745)

NOTE 5 – FAIR VALUE MEASUREMENTS

ASC topic *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC topic *Fair Value Measurements* are described as follows:

Level 1:
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the abilities to access.

Level 2:
Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means;
- if the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Funds: Valued at cost plus interest earnings throughout the year.

Mutual funds, ETP and Alternative investments: Valued at the closing price reported in the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value or certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value:

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

	July 31, 2023			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 162,952	$ 162,952	$ -	$ -
Mutual funds	207,462	207,462	-	-
ETP	306,962	306,962	-	-
Alternative investments	131,208	131,208	-	-
Total	$ 808,584	$ 808,584	$ -	$ -

	July 31, 2022			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 56,490	$ 56,490	$ -	$ -
Mutual funds	320,633	320,633	-	-
ETP	183,916	183,916	-	-
Alternative investments	129,257	129,257	-	-
Total	$ 690,296	$ 690,296	$ -	$ -

NOTE 6 – ENDOWMENTS

The use of funds invested in the Board Managed Endowment Account is restricted. Principal can be withdrawn only for operating emergencies, after board approval. Any withdrawal of principal must be approved by 80% of the members of the Board of Directors then in office (not a simple quorum). In conjunction with the withdrawal of principal the board must approve a plan for the repayment of principal to the endowment account.

The use of funds in the Cash Reserve Fund is also restricted. With board approval, principal may only be withdrawn for revenue generating programs, capital items, equipment purchases and operating emergencies. The Organization intends that the target reserve balance for this fund will represent 10% of the current operating budget. The Cash Reserve Fund may be replenished for amounts previously distributed through transfers of surplus from the operating fund or additional donor contributions.

An amount representing 4.5% of the current calendar year end balance will be distributed on March 31 and September 30 of the following year into the Organization's general account.

The Endowment Account is comprised of:

	July 31,	
	2023	2022
Board managed	$ 165,899	$ 159,434
Cash reserve fund	22,397	25,932
Total	$ 188,296	$ 185,366

Interpretation of Relevant Law
The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with generally accepted accounting principles and this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment

NOTE 6 – ENDOWMENTS (CONTINUED)

fund that is not classified in permanently restricted net assets is classified as unrestricted unless otherwise specified by the donor.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Organization
7) The investment policies

Composition of and changes in endowment net asset for the years ended July 31, 2023 and 2022 were as follows:

	July 31,	
	2023	2022
Endowment net assets, beginning of year	$ 185,366	$ 210,570
Investment return		
Investment income	4,966	4,195
Net realized and unrealized gain (loss)	5,964	(21,403)
Total Investment return	10,930	(17,208)
Disbursements	(8,000)	(7,996)
Endowment net assets, end of year	$ 188,296	$ 185,366

Return Objective and Risk Parameters
The Organization has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified purpose. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide a return of at least five percent (5%) above the rate of inflation as measured by the Consumer Price Index for the Endowment's first five (5) years and an average annual total portfolio return of at least six and one-half percent (6.5%) over the next ten (10) years. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
The Organization targets a diversified asset allocation of its investments in a mix of asset classes that is expected to achieve its long-term return objectives within prudent risk constraints. The funds are to be broadly diversified in order to minimize the risk of large losses in individual investments. The commitment to any one security should be limited to a maximum of ten percent (10%) of the portfolio's market value, with the exception of United States Government Securities and mutual funds (or other diversified pools). The organization's asset mix includes: cash and cash equivalents ranging from 0 to 20 percent, equities ranging from 40 to 75 percent and fixed income investments ranging from 25 to 55 percent of the investment portfolio.

NOTE 7 – INTANGIBLE ASSET

The Organization has an intangible asset included in prepaid expenses and other assets. The intangible asset consisted of the following:

	July 31, 2023	July 31, 2022
Trademark ArtOps	$ 3,150	$ 3,150
Less: accumulated amortization	(2,059)	(1,741)
Intangible asset, net	$ 1,091	$ 1,409

Future amortization expense is $318 for each of the next two fiscal years and $97 for the six fiscal years following. The Organization's future cash flows are not materially impacted by its ability to extend or renew agreements related to its amortizable intangible assets.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	July 31, 2023	July 31, 2022
Furniture, fixtures, and equipment	$ 99,925	$ 99,925
Less: accumulated depreciation	(93,804)	(84,978)
Property and equipment, net	$ 6,121	$ 14,947

Depreciation expense was $8,826 and $8,826 for the years ended July 31, 2023 and 2022, respectively.

NOTE 9 – NOTES PAYABLE

Line of Credit
On March 18, 2021, the Organization entered into a line of credit agreement with a bank for general business purposes. The maximum borrowing capacity of the line is $150,000. This credit facility bears interest at a variable rate associated with the one month LIBOR rate, plus 3.75%. As of July 31, 2023, the balance due was $0. The line is secured by the Organization's investment accounts.

NOTE 10 – LEASES

The Organization leases office space under an operating lease for $3,896 per month, increasing annually, and expiring on April 30, 2026.

For the year ended July 31, 2022, the lease was accounted for under ASC Topic 840. Payments under the lease were expensed on a straight-line basis, which resulted in a deferred rent liability of $2,525.

Under adoption of ASC 842, an operating right of use asset was recognized in exchange for a new operating lease liability in the amount of $110,913, which was calculated using a risk-free discount rate of 3.59%. The rate was set at the U.S. Treasury 10-year yield curve rate as of the commencement of the lease.

NOTE 10 – LEASES (CONTINUED)

The operating right of use asset consists of the following:

	July 31,	
Description	2023	2022
Office space at adoption	$ 110,913	$ -0-
Less: Accumulated amortization	(8,804)	-0-
Operating right-of-use asset	$ 102,109	$ -0-

Following is a reconciliation of the undiscounted future payments to the operating lease liability at July 31, 2023.

Total undiscounted future payments under the operating lease	$ 107,950
Discounted rate of 3.59% applied to future lease payments	(5,416)
Operating lease liability	$ 102,534

Schedule of future minimum lease payments required under the leases for the years succeeding July 31, 2023, are summarized as follows:

Years ending July 31,	Amount
2024	$ 37,825
2025	39,525
2026	30,600
Total	$ 107,950

Total rent expense for the years ended July 31, 2023, and 2022, was $49,077 and $38,179, respectively.

NOTE 11– LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization’s financial assets as of July 31, 2023, reduced by the amounts not available for general use within one year due to contractual or donor-imposed restrictions or internal designations.

Financial assets	
Cash	$ 150,936
Receivables	121,745
Investment	808,584
Total financial assets	1,081,265
Amounts not available for general use	
Endowment	(188,296)
Board designated funds	(205,988)
Donor restricted funds	(367,397)
Financial assets available to meet general expenditures within one year	$ 319,584

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 12 – BOARD DESIGNATED NET ASSETS

The Board of Directors designated net assets for use after July 31, 2023, and 2022, of $205,988 and $205,988, respectively.

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS

The Organization receives support from varying sources that are restricted, either by purpose or passage of time.

The following table summarizes the portion of net assets that are restricted for the following purposes or periods at July 31, 2023 and 2022:

	2023	2022
Time restricted grants	$ 68,500	$ -
Program support	218,897	254,032
Capacity building	-	9,000
Staff development	5,000	5,000
Buisiness plan	75,000	-
Total net assets with donor restrictions	$ 367,397	$ 268,032

Permanently restricted net assets represents an endowment which totaled $188,296 and $185,366 as of July 31, 2023 and 2022, respectively.

NOTE 14 – OTHER FOUNDATION ENDOWMENT

The Organization has an Endowment Fund (the "Fund") with the Community Foundation for Southeast Michigan ("CFSEM"). The Fund is maintained and administered by CFSEM for the purpose of providing support to further the general charitable purposes of the Organization. Annual distributions are based on the average market value of the Fund for the previous twelve quarters and totaled $11,643 and $11,227 for the years ended July 31, 2023, and 2022, respectively. The assets held in the Fund had a market value of $261,951 and $257,219 as of July 31, 2023, and 2022, respectively. Such assets are excluded from the accompanying financial statements.

NOTE 15 – EMPLOYEE BENEFIT PLAN

The Organization has established a 403(b) employee benefit plan covering all eligible employees under which voluntary employee contributions are permissible. The Organization may make a discretionary matching contribution as determined by the Organization each year. Plan assets consist primarily of mutual funds. For the years ended July 31, 2023, and 2022 the Organization did not make any matching contributions.

NOTE 16 – RELATED PARTY TRANSACTIONS

The Organization made purchases from companies owned by certain board members during the years ended July 31, 2023 and 2022 that totaled $16,684 and $14,163, respectively. Included in accounts payable was $2,677 and $1,564 owed to related parties as of July 31, 2023 and 2022, respectively.

NOTE 16 – RELATED PARTY TRANSACTIONS (CONTINUED)

The Organization provides management services to organizations with shared management during the years ended July 31, 2023, and 2022 that totaled $265,000 and $247,708, respectively. Included in accounts receivable was $0 and $3,158 receivable from related parties as of July 31, 2023 and 2022.

NOTE 17 – COMPARATIVE STATEMENTS

Comparative Data
Certain amounts shown for the year ended July 31, 2022, in the accompanying financial statements are included to provide a basis for comparison with 2023 and present summarized totals only. Accordingly, the 2022 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Chapter's financial statements for the year ended July 30, 2022, from which the summarized information was derived.

Reclassification
Certain 2022 amounts have been reclassified to conform to the 2023 statement presentation.

NOTE 18 – DATE OF MANAGEMENT'S REVIEW

The financial statements have been reviewed by management through the date of this report, which is the date the financial statements were available to be issued.